

Union Station Lease Update

Economic Development &
Housing Committee
June 4, 2007

Briefing Purpose

- To provide the committee with a status report on Union Station lease discussions with Woodbine Development Corp.
- Review the business terms for a proposed lease modification.
- The City Auditor, John Bromberg and our City Attorney's office have provided invaluable input and guidance in the lease modification process. Mr. Bromberg been our lead attorney in drafting the lease instruments.

New Lease Goals

- Simplify the lease and clarify confusing language
- Enhance this city's financial return
- Redevelop Union Station and return to its original grandeur
- Improve Union Station's position for economic development in the center city

Site Location

- Union Station is 102,000 square foot facility located in downtown Dallas at 400 S. Houston St. between Woods St. and Young St. circled by Reunion Blvd.



Union Station - History

- Opened in 1914 by Union Terminal Company as Dallas Union Station
- Built to consolidate five rail stations scattered around the City, making Dallas a major transportation center in the Southwestern United States
- 1954- served as a temporary library while the City built the new central library to replace the Carnegie Library
- Union Station was acquired by the COD in 1973 to be preserved as a historic structure and for future use as a transportation center
- 1996- DART Light Rail and Trinity Railway Express began service
- Included in the National Register of Historic Places
- Designated a Recorded Texas Historic Landmark
- Designated a Dallas Historic Landmark

Union Station-Today

- Today, Union Station serves principally as a multimodal transportation hub with limited office uses, some social events attraction and tourism appeal
- Transportation hub uses include DART light rail and bus services, Trinity River Express rail transportation and Amtrak, which all serve the greater Dallas area from Union Station,
- The Grand Hall at Union Station continues to serve as venue for large group functions, weddings and parties;
- More than 9,000 daily visitors pass through this Dallas landmark

Union Station Current Lease

- Subject to the first floor use for transportation purposes, and the City's recall rights on the second and third floors, Union Station is currently leased to Hunt-Woodbine Realty Corporation ("WDC") for a 50-year primary term with five 10-year renewal options. First renewal option can be exercised in 2025. 32 years of the primary lease term have transpired.
- The non-public areas of Union Station contain 58,213 square feet of rentable space relative to a gross building area of approximately 102,000 square feet. Of the rentable space over 80% is sub-leased.
- Union Station's design does not lend to a cost efficient office or special use facility.

Union Station Current Lease_{cont}

- Minimum Rent to City
 - \$100.00 each calendar year
 - \$2.80 per sf times the number of sf rented
- Additional Rent
 - 25% of net revenue (defined as cash rentals less operating costs) until no un-recovered costs: then 50% of net revenue
- Operating expenses incurred by lessee
 - Rental paid, lessee maintenance costs, insurance premiums, management expenses, janitorial, leasing commissions and similar or related expenses actually incurred.
 - Operating expenses shall not exceed during any rental period an amount equal to the rent
- Utility Expense
 - Lessor shall furnish all lessee's normal and standard requirements for water, gas, electricity, sewage, garbage, HVAC and other utility services

Union Station Current Lease_{cont}

● Lessee's Costs

- Added to the lessee's cost would be their pro rata share of common area associated with the amount of sub-lease space

● Maintenance

- Lessee shall maintain all tenant lease areas
- Lessor shall maintain all common areas or non-tenant lease space

● Parking

- Lessee has the right to use up to 50% of the parking spaces.
- Lessor is entitled to the exclusive parking concessions

Proposed Tenant Function

- Expand current DRM lease space from 23,000 sf to over 40,000 sf
- Woodbine Development Corp (WDC) to invest over \$20.0m in new tenant improvements
- Through a third party operator, develop a major food service program for both on and off premise catering
- Enhance current function and office spaces on the second and third floors
- WDC's proposed operator estimates in stabilized third year of operation \$8.50m gross food/beverage revenues can be realized.
- The \$20.0m planned investment by WDC in Union Station is also part of an additional \$20.0m planned investment in the Reunion Tower for a total planned \$40.0m private sector investment.

Union Station Lease Modification Business Points Discussion List

● LEASE STRUCTURE

- DRM sublease structure remains intact but rent structure is independent of other leases.

Union Station Lease Modification Business Points Discussion List cont

● SPACE PLANS

- Leased area (1st Floor, Grand Hall and other second floor function spaces, 3rd Floor and Loggia) has been recalculated and will be mutually agreed to for future reference based upon updated, by floor space plans
- Common areas (Lobbies, Loading Dock, Pedestrian Tunnel) are to be adjusted to reflect adjustment of DRM lease.
- Loggia will be added to DRM lease, but City retains shell capital maintenance responsibilities, and Hunt-Woodbine will take over event-related maintenance

Union Station Lease Modification Business Points Discussion List_{cont}

● LEASE ECONOMICS

- Fixed Minimum Rent (\$2.80/SF) is to be paid on all leases, subject to rent option chosen for DRM Lease Agreement
- DRM lease rental provides two options:
 - \$2.80 per square foot minimum rent (\$112,658) plus 20% of difference between \$450,000 base rent and minimum rent amount (i.e., 20% of \$450,000 minus \$112,658) which is initially equal to \$180,126 either,
 - Or the greater of \$2.80 per square foot or 2% of gross receipts generated by operator;
 - All Union Station lease rental payable to City will be pooled and offset by common area maintenance performed by Hunt-Woodbine on behalf of City, if requested and
 - Other existing leases will continue to be treated under existing methodology.
- Un-recovered Cost calculation/methodology is deleted from lease agreement
- City staff is still evaluating the rental options to determine best approach.
- Lease term matches operator term (10-year primary term plus two 5-year options)

Union Station Lease Modification Business Points Discussion List_{cont}

● OPERATIONS

- City R&M responsibilities will generally continue as outlined in existing lease, reduced by responsibilities taken on by Hunt-Woodbine with respect to Grand Hall.
- Utility cost sharing methodology has been agreed upon and will be incorporated into lease amendment – WDC would pay for the additional incremental utility usage associated with the tenant improvement area.
- Security will be shared as outlined in the Lease Agreement, although the addition of the Grand Hall to the DRM lease should reduce City's security staffing requirements
- Common Area percentage will be adjusted to reflect agreed upon space plans

Union Station Lease Modification Business Points Discussion List_{cont}

● RENOVATION

- Hunt-Woodbine and City will agree upon an outside completion date for DRM-related tenant finish
- Exterior landscaping modifications to the lease agreement have been agreed upon and will provide for Hunt-Woodbine with the ability to enhance landscaping on Houston Street frontage provided it takes on associated maintenance

Union Station Lease Modification Business Points Discussion List_{cont}

● CITY APPROVALS

- City waives recall right associated with space occupied under modified DRM Lease Agreement and term.
- City will provide a 1st Floor transportation restriction waiver to allow DRM lease to occupy defined portion of 1st floor
- City access to Grand Hall will continue to be granted subject to coordination with DRM space operator
- Sublease approval rights will remain as stated under existing lease

Union Station Lease Modification Business Points Discussion List_{cont}

● AUDITOR LEASE PROVISIONS

- Auditor preliminary recommendations will be incorporated into revised lease amendment on mutually agreeable basis

Economic Impact of Proposed Tenant Improvements

- Proposed tenant improvement will add 153 new jobs to downtown.
- Incremental sales and mixed beverage taxes to the City from new operation in stabilized 3rd year of operation (\$8.50m gross revenues) are estimated to be:
 - City share - Alcohol Beverage Tax (estimated annual) - \$26,749
 - City share – Sales Tax (estimated annual) - \$60,132
 - Note: the preceding City tax revenue estimates refer only to Union Station operations.
- \$20.0m in private dollar improvements will be made to city owned facility in addition to the \$3.960m city funding for major maintenance needs at Union Station.
- Re-establish Union Station to its original grandeur as a significant higher quality venue in downtown Dallas.

Economic Impact of Proposed Tenant Improvements_{cont}

- The City's financial position for Union Station operations to include both revenue enhancements and cost reductions has been improved by an estimated \$190k to \$200k annually.
- Further, the leasehold improvements for the Reunion Tower are estimated to provide approximately \$140k in new property tax revenues to the General Fund which in addition to the estimated \$60k in sales tax and estimated \$26k in mixed beverage tax. Total tax revenue to the City estimated to be \$226k annually (not adjusted for inflation or growth in revenues or values).
 - Note: the preceding estimates for sales and mixed beverage tax do not include sales generated from a successful Reunion Tower operation.
- City's utility (power, water/sewer, natural gas) consumption exposure has been capped based upon an agreed to baseline consumption reflecting the prior 3 year use average.
- Further, the City and WDC will continue to aggressively pursue food service opportunities for the transportation lobby in an on-going effort to improve the customer/visitor experience for Union Station.

Schedule

- Complete lease agreement modification to include floor plans identifying lease and non-lease areas, list of lessee improvements, description of common areas, sublease premises and site plans – and seek City Council action on the modified lease in June 2007

How did we address our goals

- Union Station will be returned to its original grandeur.
- It will enhance our goals for economic development in the center city.
- The City's financial support to Union Station has been improved.
- The City's \$3.960m capital improvement is facilitating a private sector \$20.0m investment in a city owned venue.
- Lease modification should be improve transparency, reduce complexity and simplify the respective roles/responsibilities and economics for all parties.

Questions